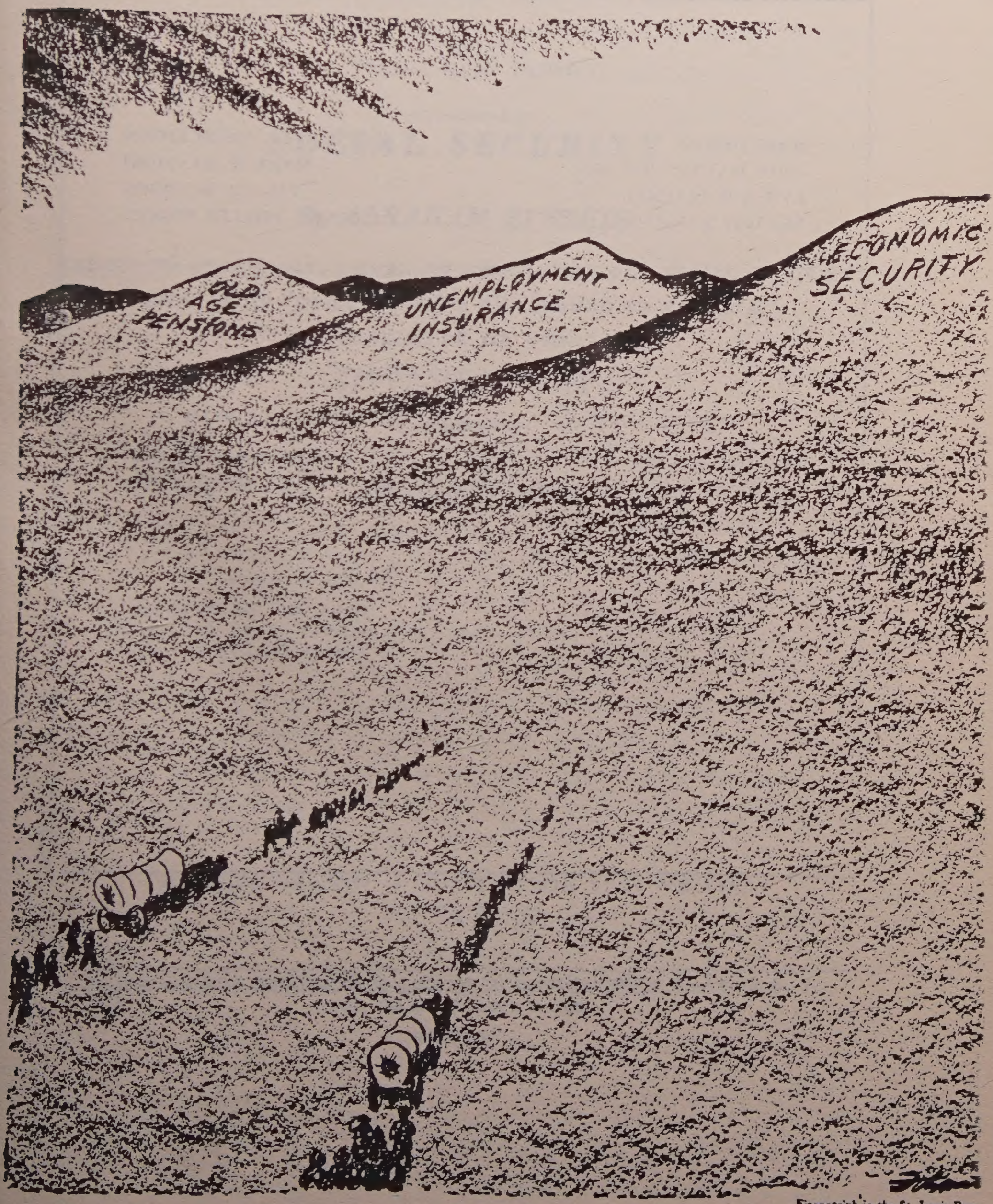
NEW FRONTIERS

• PERIODICAL STUDIES IN ECONOMICS AND POLITICS •

SOCIAL SECURITY

BY ABRAHAM EPSTEIN



Fitzpatrick in the St. Louis Post

THE LEAGUE FOR INDUSTRIAL DEMOCRACY is a membership society engaged in education toward a social order based on production for use and not for profit. To this end the League conducts research, lecture and information services, suggests practical plans for increasing social control, organizes city chapters, publishes books and pamphlets on problems of industrial democracy, and sponsors conferences, forums, luncheon discussions and radio talks in leading cities where it has chapters.

LEAGUE FOR INDUSTRIAL DEMOCRACY
112 East 19th Street
New York City, N. Y.

NEW FRONTIERS

VOL. V • NO. 3 MARCH 1937

PUBLISHED MONTHLY FROM SEPTEMBER TO JUNE BY THE
LEAGUE FOR INDUSTRIAL DEMOCRACY, 112 EAST 19th ST., NEW YORK CITY

SOCIAL SECURITY

By ABRAHAM EPSTEIN

EXECUTIVE SECRETARY, AMERICAN ASSOCIATION FOR SOCIAL SECURITY;
AUTHOR OF "INSECURITY—A CHALLENGE TO AMERICA,"
"THE CHALLENGE OF THE AGED,"
"FACING OLD AGE," ETC.

BOOK REVIEW

25 CENTS PER COPY • SUBSCRIPTION $2.50 PER YEAR

**Entered as second class matter, June 9, 1933, at the Post Office of New York, N. Y.
under the act of March 3, 1933**

TABLE OF CONTENTS

INTRODUCTION

THE League for Industrial Democracy is happy to present in its NEW FRONTIERS Series the following admirable study of social insurance legislation by Abraham Epstein, one of the foremost authorities on this subject in America.

This pamphlet presents a concise and convincing case for social insurance; describes clearly and cogently the essentials of present day social insurance legislation in America and sets forth an immediate legislative program for the revamping of our present utterly inadequate system. The pamphlet is of the utmost timeliness and should be carefully considered by all who are directly and indirectly affected by our social insurance laws.

In a monograph of this size it has been utterly impossible for any one to cover fully all phases of the movement. For a more thorough treatment of the subject the reader is referred to Mr. Epstein's monumental volume—*Insecurity* and to the other studies listed in the bibliography.

Mr. Epstein has made no attempt here to present a model federal plan of social insurance. He has attempted merely to present some of the changes in the present systems of old age pensions and unemployment insurance which he regards as the most practical next steps under present day economic and political conditions and to give the case for health insurance.

Many members of the League will doubtless desire to add to the list of changes which Mr. Epstein proposes. Many have recently urged a reduction in the age for the receipt of old age pensions from 65 to 60; the inclusion of all workers under a more socially adequate system of unemployment insurance; the immediate and drastic increase in the amount of cash benefits received by the aged and the unemployed and increasing reliance on progressive forms of taxation for the major part of the insurance fund. Some have laid emphasis on the principles enunciated in the so-called Lundeen bill. It is the irony of fate that employees of non-profit organizations are not included in the provisions of social insurance laws. Many of these associations have done pioneer work in the fight for social insurance legislation and

their employees are as much entitled to share in the provisions of the old age pension and unemployment insurance laws as are those of any other employees.

Mr. Epstein expresses it as his opinion that, in general, it is better for the community to take care of the unemployed under a sound system of unemployment insurance than through such systems of work relief as are exemplified by the W.P.A. This point of view, while shared by many, will doubtless be vigorously questioned by many others, including those who are sharply critical of a number of practices now in operation in the Works Progress Administration.

In presenting this pamphlet, as in publishing all of the pamphlets in the NEW FRONTIER series, the L.I.D. makes no official commitment to the program set forth. Such publication, however, carries with it the assurance that the pamphlet is, in our opinion, one of outstanding merit in the field which it covers. We issue this pamphlet on social security with the firm conviction that it is one of the keenest and most constructive short treatises on this important subject thus far published. It is to be hoped that the developments in social insurance in the near future will be as epoch making as those following the publication of Mr. Epstein's first pamphlet for the League a half dozen years ago.

HARRY W. LAIDLER

SOCIAL SECURITY

THE EXTENT OF INSECURITY

It is the grim paradox of our present day society that with granaries bursting with food supplies, warehouses filled with shoes and clothing, and goods of every kind in over-abundance, men, women and children go hungry and ill-clad or must resort to public or private charity for their very existence. The spectre of economic insecurity haunts our entire population today because the overwhelming majority of the people of the United States earn their livelihood by working for others, receiving for their labor a wage or salary. Not only has industry extended its influence over the mass of workers through large scale production and the growth of great corporations, but trusts and mergers, the growth of the chain-store, and the decline of the independent professions have increased the number of people who are dependent upon a wage or salary for a living. The instability of the jobs of our wage-earners has rendered their lives insecure to the point of despair. It is this insecurity, which prevails in the midst of our boundless plenty, that weighs down our lives, subverts our liberty and frustrates our pursuit of happiness.

Our complex civilization has, indeed, brought all social strata face to face with the problems of insecurity. The farmer, the professional man, the business man, and even the investor and savings depositor are today uncertain of their invulnerability and independence.

Agriculture or independent farming no longer provides the chief American refuge of independence and security. Between 1920 and 1930, the number of operating farms declined by nearly 160,000, while the number of complete farm owners dropped by 455,000. At the same time, the number of tenant farmers is constantly increasing. In 1880 25.6 per cent of our farms were operated by tenants. By 1930, the percentage of such tenant-operated farms increased to 42.4 per cent. During the decade 1920 to 1930, the value of farm land and buildings declined by $18,400,000,000, a decrease of 28 per cent. The total of farm mortgages increased between 1910 and 1930 by 300 per cent. According to the Secretary of Agriculture, Henry A. Wallace, the total farm indebtedness, including personal and short term debts, in the spring of 1933 amounted to no less than $12,000,000,000.

The heart-rending story of farm foreclosures in the last few years is, indeed, too well known to require elaboration.

Nor are the professional classes immune from the terror of joblessness and poverty. The number of professional people who depend for their living upon a salary from some corporation or firm is constantly mounting. There was a time when engineers, architects and accountants set up independent offices and ran their own consulting businesses. Chemists established their own laboratories, while pharmacists set up their own businesses. Most members of these professions today have to work for a salary for some corporation or independent employer, with no more certainty of tenure than common laborers.

The relief appeals of the past few years revealed fully the destitute condition of many professional people such as actors, musicians, scholars, auditors and former ten-thousand-dollar-a-year-men. As early as October, 1930, the Emergency Employment Committee of New York City filled its staff of over 250 persons from the ranks of unemployed personnel directors, department heads, accountants and the like. On its emergency work payroll at $15 a week were 35 actors, 19 doctors and dentists, 5 architects, 22 commercial artists, 26 engineers, 23 teachers, 8 reporters, 19 accountants, 5 statisticians, 6 social workers and 58 musicians.

The diminishing opportunities for "going into business" are generally known. By tens of thousands, independent business men, small manufacturers and merchants have, in the last few decades, been compelled to give up their businesses. On the other hand, the number of larger establishments has been constantly on the increase. As early as 1910 the two hundred largest corporations (excluding banking) held 33 per cent of the total assets of all American corporations. By 1920 their control had risen to 39 per cent, and by 1930 to 49 per cent, leaving only 51 per cent to be shared by the remaining 300,000 corporations. The forces driving small business men to bankruptcy and failure are indeed too numerous to mention.

Even the heads of our large industrial corporations have no security in their jobs. No longer the owners of their businesses as their predecessors were, they have become merely paid employees of their respective concerns with the accompanying insecurity of tenure inherent in all jobs, high or low. Job agencies are overcrowded today with

former highly paid executives and vice-presidents who seek any work they can get.

The depression has taught us that even savings offer no solution of the problem of insecurity. Savings deposited in banks—the reputed paragons of safety and conservatism—have offered no effective protection. During the decade 1923 to 1932 there were no less than 9,883 bank suspensions throughout the country, involving deposits of $4,702,142,000. In the year 1932, despite the enormous resources available to distressed banks through the Reconstruction Finance Corporation, there were 1,453 suspensions involving deposits of $730,426,000. Following the bank holiday in March, 1933, approximately 5,000 banks failed to open in full. More lately, bank failures have been at a minimum. What will happen when the curve of the business cycle again points downward is impossible to say.

Investments in stocks and bonds are still most hazardous. The hundreds of millions of dollars lost by those who entrusted their savings to Insull and to Kreuger are still fresh in our memories. The losses sustained in the entire list of stocks and bonds have, however, been only fractionally less than in these spectacular examples.

There is, indeed, no need today, after the severest depression in any nation, to pile up evidence of the fact that economic insecurity is the paramount problem confronting our citizens. Wherever one turns he finds the refuges of earlier days blocked or strewn with wrecks.

Wage-Earners Especially Haunted by Insecurity

The spectre of insecurity especially haunts the wage-earner from childhood to the grave. The happiness, ambitions and hopes of wage and salary earners are entirely wrapped up with the stability of their jobs. Without security against the loss of their jobs, the lives of the workers are utterly unstable and precarious. The haunting fear that his wages may be cut off constantly hangs over the worker's head like the Sword of Damocles. It is the bane of his life; it saps his vitality, and fills his every moment with anxiety.

There are so many ways of losing one's job temporarily or permanently. The risks of industrial accident or occupational disease —risks far greater than those undertaken by capital—may curtail or stop a wage-earner's earning power. And there are about 3,000,-

000 industrial accidents every year in the United States. About 20,000 of these are fatal, while many more result in permanent disability.

At any moment the worker or a member of his family may become ill. In addition to the loss of wages, a worker is burdened with the expenses of doctors, drugs and hospital care. Although sickness is one of the most expensive luxuries in the United States, every day finds from two to three million persons ill either at home or in hospitals. The birth of a child drains the family income at a time when that income is more needed than ever. The death of a member of the family is frequently financially disastrous and the cost of the burial often results in serious debt which cannot be met for years. Throughout life the worker is weighed down by the fear of sudden death and by the prospect of leaving his wife and children utterly dependent and destitute.

From causes which he is unable to control, the worker is suddenly laid off for weeks, months, or even years. Even after several years of improved industrial conditions, unemployment continues to remain a stark reality in the lives of some ten millions of our citizens. The wage-earner who does manage to keep a steady job frequently finds that, sooner or later, he is discarded as too old and decrepit and is left to face the poorhouse and a pauper's grave. It is a conservative estimate that at least 40 per cent of those reaching the age of 65 are dependent for their support upon relatives or public and private charity. In the face of all these emergencies, it is but a short step from independence to dependence, from security to despair and destitution.

The sinister spectre of present day insecurity not only undermines the physical and moral welfare of the individual worker, but is the outstanding obstacle to national well-being and prosperity. The insecurity of our wage-earners in the face of the hazards of modern life not only menaces national prosperity, but endangers the very existence of the social order. No society which exposes the majority of its members to such grave and continuous hazards and injustices can endure long. For the worker, under the factory system, has no stake in industry; he is given no right to his job. His employer is bound neither legally nor morally to provide him with regular employment; the business man feels under no obligation to support his employees during emergencies. Governmental action for social security thus be-

comes a paramount obligation of industrial society. A system of social insurance provides an important immediate means of attaining some degree of security.

The Principle of Insurance

THE principle of insurance was first emphasized in medieval times. Insurance seeks to eliminate an individual loss by distributing the risk of such loss among many persons subject to the same risk, all of whom are exceedingly unlikely to suffer the same loss at the same time. The insurance principle establishes a collective responsibility for the individual loss. A $10,000 house, for instance, can be insured against fire for about $40 a year because accumulated experience shows that only one house in 250 is likely to burn each year. The same principle underlies life insurance, burglary insurance and the like.

The advantages of insurance are so widely recognized in the United States that it is superfluous to repeat them here. It is universally acknowledged nowadays that it is worth-while to pay a small sum of money in advance in order to possess security against some future emergency. The immediate moderate financial outlay involved in the payment of an insurance premium is more than recompensed by the freedom from fear of a possibly large financial loss.

Although private insurance extends today into every branch of business and into almost every relation in life, American workers have been able to take little advantage of the existing private insurance to protect themselves against the economic hazards. Insurance against unemployment is not even being written by private insurance companies. Few workers are able to purchase protection against sickness and disability, and practically none can afford to buy annuities for his declining years. The most extensive form of workers' insurance in the United States is that of industrial insurance, bought largely for burial purposes. The inadequacy of this protection is evidenced by the fact that the average industrial policy amounts to about $200. Moreover, workers not only pay exorbitant prices for this protection but the lapse ratio of these policies is shockingly high. During the eleven-year period 1923-1933 only eight out of every hundred cancelled industrial policies were terminated because they fulfilled their purpose. The other ninety-two policies were terminated without pro-

viding any benefits to the insured, despite the making of great sacrifices. It is also generally estimated that about 40 per cent of wage-earners carry no insurance protection of any kind.

The Method of Social Insurance

Social insurance is a device to overcome the obstacles of the high costs of private insurance and to extend protection to wage and salary earners against their major economic risks. Such protection is extended in several ways: (1) By spreading the risk over the entire working population of a state or nation instead of limiting insurance coverage to a selected group of policy-holders, the elemental advantage of risk distribution is given its widest scope. (2) By making the insurance compulsory upon all or certain categories of workers and by collecting the contributions through their employers, the cost of solicitation and overhead is considerably reduced. (3) By distributing the total costs among various groups—the workers, their employers and the community as a whole—the individual cost is brought down within the reach of wage-earners.

Social insurance may, therefore, be described as a relatively inexpensive form of insurance devised by the state to guarantee the wage-earner and his dependents a minimum of income during periods when, through forces beyond his control, his earnings are impaired or cut off. Thus the aim of social insurance is the establishment of a minimum level of economic sustenance below which no one should fall during such emergencies as unemployment, sickness, invalidity and old age, rather than an actuarially perfect system of insurance.

A sound social insurance program is therefore based largely on financial expediency and social wisdom rather than on strict insurance principles. For this reason social insurance proposals lay the greatest emphasis on the widest distribution of the costs. Indeed, in social insurance it matters little whether the people bearing the risk pay the contributions themselves. What matters most is that those who suffer most should receive the greatest protection. For a governmental social insurance scheme does not seek to "stay in business," but rather to accomplish a socially desirable aim. The premium rates are dictated by social policy, not by the actuary. Social insurance is still insurance even if not a penny of the funds comes directly from the

beneficiaries or even from industry. A social insurance fund is solvent even if part or all of its funds come from general taxation because its emphasis is on the protective possibilities of the scheme rather than upon its actuarial contingencies. Professor Paul H. Douglas stated this position well when he declared that social insurance regards the solidarity of society to be such "that greater relative protection may be properly given to those in the greatest need."

Furthermore, since it is impossible to meet the immediate problem of accumulated destitution through the long preliminary accumulation required by insurance principles, this part of the program must be financed through governmental aid out of general taxes, preferably the more equitable income and inheritance taxes. This form of relief may be accurately described as social insurance whenever it stipulates and classifies the grants on the basis of pre-determined qualifying conditions. The existing old age security and mothers' aid laws, for example, are definite forms of social insurance. The requirement of a "means test" does not necessarily make them poor relief since these allowances are usually given in accordance with pre-determined qualifying conditions and in a self-respecting and dignified manner.

Social Insurance Lessons Abroad

THE significance of the emphasis on the widest possible distribution of the cost in the successful operation of a modern social security program is strikingly revealed by a comparison between German and British experience. Way back in the 1880's Bismarck attempted to use social insurance as a means of overcoming the insecurity then confronting German wage-earners and of combating the growing Socialist movement. Bismarck's problem was comparatively simple. German industrialism was just beginning. Production was rising. Unemployment, at the worst, was of short duration. The insecurity which was then threatening the new German industrialism arose from the fact that workers' wages were not sufficient to provide them against its hazards. The industrial rainy seasons—accidents, sickness, widowhood and old age—were not only fairly well known but their duration and extent could be pretty well determined in advance. The problem of insecurity consisted in *the challenge of wage insufficiency* to meet the known exigencies when

workers could not earn wages. To circumvent this challenge Bismarck made insurance against accidents, sickness, widowhood and old age compulsory and divided its cost amongst all wage-earners and all consumers through taxes on wages paid by the workers and their employers. Except in the case of old age, he did not provide any direct governmental contributions. As long as German business enterprise was on the upswing and the costs fairly low, the Bismarckian social insurance system succeeded in providing workers with a modicum of security against these contingencies.

When the German Republic grappled with the greatest of all industrial hazards—unemployment—with its *challenge of wage disappearance* added to that of wage insufficiency, it was ensnared by the Bismarckian policy. The Republic adopted an unemployment insurance plan in 1927 along Bismarckian principles, placing this greatest burden largely upon the backs of the workers and their employers. Since the revenues were insufficient, the plan collapsed immediately. As unemployment continued to increase, the original contributions were doubled. By 1932 German employed workers were paying directly nearly 10 per cent of their wages for social insurance purposes. An approximately similar burden was carried by their employers, not as owners of industry but as industrial establishments, which costs they transferred as a matter of course to the consumers in increased prices. The workers as consumers were, therefore, carrying almost the entire cost of social insurance. Before long they discovered that, despite the great sacrifices demanded of them, the promised unemployment insurance benefits did not materialize when they lost their jobs.

The dilemma became insoluble. Workers' living standards were lowered through both wage deductions and rising prices while huge profits were accumulating. As unemployment continued to mount, the Republic attempted to balance the insurance budget by reducing the weeks of benefits and by introducing a means test. The majority of the unemployed were gradually forced to resort to poor relief or degrading made-work schemes. Of the more than 5,000,000 unemployed in September, 1932, only about 600,000 were drawing regular insurance benfits, 1,200,000 were receiving emergency benefits, more than 2,000,000 were on the relief rolls, and more than 1,200,000 were receiving no relief of any kind! German workers were slowly but surely driven to desperation. The crying injustices added fuel to

Hitler's fires. Since January, 1933, the finale has been indelibly written in tears and blood.

Awareness that capitalistic production required for its support a stouter prop than the slim reed offered by a social insurance scheme based on the distribution of misery and the sharing of poverty among the poorest, characterized British statesmen more than a generation ago when they began to formulate their social insurance program. Conscious that modern industrialism implies scant wages on one hand and swollen profits on the other, Great Britain adopted a social insurance mechanism through which at least a part of the nation's profits could be diverted as a supplement to wages in times of need. The English social insurance program was employed not only as a medium for distributing its costs among workers and consumers, but as an instrument to return a considerable share of the profits of the nation to those workers who, through no fault of their own, were deprived of purchasing power because of unemployment, illness or old age. Unlike Germany, the British Government granted from the start completely gratuitous pensions in old age. It paid a considerable share of the cost of unemployment insurance. When, later on, the old age insurance system was adopted, the government again became an equal contributor with the workers and their employers. When the prolonged depression made the original allotments for unemployment insurance insufficient, the English Exchequer without hesitation added more money and increased as well as extended the regular, dignified insurance benefits. In addition to the regular contributions and extended benefits, the British Exchequer by 1931 poured in approximately $500,000,000 more in the form of loans which were later cancelled. During the year 1933 the British Government, in addition to paying the regular one-third of the £44,000,000 expended in ordinary insurance benefits, also paid £52,000,000 more in extended benefits. The national government thus paid 54 per cent of the total costs of unemployment insurance in addition to its normal contributions. These monies came largely from progressive taxes.

The results achieved speak for the success of the British system: Throughout its prolonged depression British employment never declined to even half the level it reached in the United States. Industrial production for the home market was hardly affected because all workers were assured of a minimum base of purchasing power. Wages

were maintained at practically the same level throughout the depression, while the cost of living declined considerably, thus definitely raising the standard of British workers. England not only emerged from the depression sooner than any other country but, outside of the depressed areas, British unemployment today is almost at normal levels.

America Backward in Social Insurance

In higher or lower form the general concept of social insurance is now applied with various degrees of adequacy in over sixty nations, covering practically all civilized countries whether they be Capitalist, Communist or Fascist, Republic or Monarchy. Of the different risks confronting workers, industrial accidents are insured in every civilized country. The illness of the workers is the next most commonly insured risk, usually including protection for maternity and permanent invalidity. Provisions for orphans and widows also exists in a great many countries. Approximately 40 nations have established social insurance against destitution in old age, while about 15 countries have compulsory systems of unemployment insurance.

But while European nations were experimenting with social insurance for more than fifty years, the United States, despite its increasing industrialism, remained laggard. By the middle of 1934, we still had four states without any accident compensation laws. Two states were still without any protection for dependent children and most of the existing state laws were ineffective. Only 28 states had placed old age pension laws on their statute books and many of these were not paying any pensions. There was no insurance provision whatsoever against illness and only one state—Wisconsin—had enacted an ineffective plan of individual company reserves for unemployment. The continued depression accentuated the needs and made immediate action imperative.

It was not surprising, therefore, that President Roosevelt's message to Congress on June 8, 1934, promising that "next winter we may well undertake the great task of furthering the security of the citizen and his family through social insurance," stirred the nation to a high pitch of enthusiasm. It was hailed from one end of the country to the other. Following his message the President selected the Secretaries of Labor, Agriculture and the Treasury, the

Attorney General, and the Federal Emergency Relief Administrator to form a Committee on Economic Security for the preparation of a social insurance program. On January 17, 1935, the Committee submitted a bill to Congress embodying the President's security program. After many changes in Congress this bill, approved by the President on August 14, 1935, became the Social Security Act.

What the Social Security Act Provides

To facilitate understanding of this complex measure the ten programs embodied in the Act may be divided into three categories: (a) Federal grants-in-aid for state welfare programs; (b) the tax-credit device for the encouragement of state unemployment insurance laws; and (c) the national contributory old age insurance plan.

The Grants-in-Aid Program

Of the ten subjects covered by the Social Security Act, eight deal with grants-in-aid to states:

(1) The federal government cooperates with the states in extending old age assistance to needy men and women over 65 years of age. The state grants are matched by the Federal Government up to a maximum of $15 per month per person.

(2) States are aided in providing for their needy dependent children under 16 years of age with funds equal to one-third of the total expended for this purpose, limited to $18 monthly for a single child and $12 for each additional child.

(3) The federal government subsidizes the states who give assistance to the needy blind with one-half of the state grant not to exceed $30 monthly to any individual.

(4) Federal funds are appropriated to states for the purpose of: (a) extending and improving local maternal and child health programs; (b) improving the state services for locating crippled children and providing medical services for them; (c) the extension of welfare services to protect and care for homeless, dependent and neglected children, and children in danger of becoming delinquents; (d) extending state plans for vocational rehabilitation of the physically disabled.

(5) The sum of $8,000,000 a year is allotted to states and localities

for more adequate public health services, including the training of personnel.

Before receiving federal grants, state laws must comply with certain prescribed standards laid down in the Act. The federal government also contributes to the cost of administering some of these welfare services.

The above provisions are all essential and sound. Grants-in-aid to states afford the only practicable means of providing for present destitution. They involve no new principle in American legislation since they have been commonly in practice from the first days of the Republic. They have been applied with great success in many fields. In the brief time since the passage of the Social Security Act, many states have already taken advantage of these grants by establishing new laws or by liberalizing their previous statutes. These programs are distinctly superior to our haphazard system of relief. Grants-in-aid are rooted in American tradition and are also considered definitely constitutional. Moreover, since they are financed through general taxation, they are definitely in the direction of greater security. Every penny given these needy persons adds to their consuming power and helps, to that extent, to bring a better adjustment in the national economy. The improvements necessary here are largely those relating to the adequacy and standards of the present provisions.

The Changes Necessary

The present provisions for the aged raise two chief difficulties: (1) Since the federal government refuses to share with a state that part of any individual allowance which exceeds $30 per month, states are reluctant to make higher grants despite their needs and ability to do so. New York, for example, hesitates to grant a larger number of pensions above $30 a month since it alone must finance the additional cost. (2) In limiting the federal share to one-half of each pension paid by a state, up to a maximum of $15 monthly, the poorer states, unable to match the full $15, prefer to forego some of the federal money and grant extremely meager pensions. In December, 1936, for instance, the average pension was under $15 a month in thirteen states, which is obviously not enough to live on and too much to die on.

Both difficulties can be easily remedied. By making the federal share equal to one-half of the amount expended by a state not to exceed a *state average* of $30 a month, the first difficulty would be overcome. Since even in New York State, where 27 per cent of the New York City grants in 1935 were over $30 a month, the monthly average that year was only about $21. It can thus readily be seen that by raising the state average to $30 per month many higher grants would be possible without an increase in the present federal limit of $15. The wealthier states would, under this plan, be enabled to raise the level of pensions considerably and to make the allowances more adequate. A state average of $30 a month would make possible many $40 and $50 pensions, thus meeting the problem of the needy aged more adequately than at present.

The second difficulty—that of providing sufficient inducement to backward states to improve their old-age insurance laws—can be overcome by making the federal $15 grant represent two-thirds instead of one-half of the state allowance. An average contribution of only $7.50 by a poor state would thus make possible many grants of $25 and over per month in that state. The level in the poor states would thus be considerably raised, while the wealthier states would have little inducement to reduce their present grants since they would not be losing anything. At the same time, the federal government would not be required to increase its present $15 limit.

These changes should be further strengthened by requiring states to make the grants sufficient for a decent and reasonable subsistence and to take into account in their allowances the health factor. The problem of migratory workers could be overcome by requiring the states further to reduce their residence requirements.

The same changes should be made in the subsidies for the needy blind, which are granted on an identical basis. They should also be made to apply to the grants for dependent children, now limited to only one-third of the state allowance. Not only must the federal government undertake to share these grants on a two-thirds basis, but the maximum now set by the Act should be considerably raised in order to assure adequate protection of dependent children. There is obviously no reason why needy mothers and children should not be entitled to the same consideration from the Federal Government as the needy aged and blind.

The Unemployment Insurance Plan

The Social Security Act does not set up a national system of unemployment insurance. The Act merely places a tax on the total payrolls of all employers who have eight or more workers during 20 weeks in the year. The tax was set at one per cent of the payroll in 1936, 2 per cent during 1937, and 3 per cent during 1938 and thereafter. The federal tax is waived up to 90 per cent to employers who pay taxes for the same purpose under approved state laws. This was devised in order to remove the obstacles to state unemployment insurance laws and to permit employers paying such taxes in one state to compete with employers of other states. The following vocations are exempted from the tax: (1) agricultural labor; (2) domestic service in a private home; (3) employment of close relatives; (4) navigation; (5) government employment; and (6) employment by non-profit-making charitable, religious, scientific, literary or educational institutions. To be approved, a state law must provide chiefly that it turn over the money it collects for unemployment insurance to the Federal Treasury for deposit, that it pay no benefits for at least two years after contributions begin, and that it does not deny benefits to an eligible individual for refusing to accept new work where there is a labor dispute, where he is required to refrain from joining a *bona fide* labor organization, and where the conditions are substantially less favorable than those prevailing for similar work. In all other respects, the states are free to enact such provisions as they desire. Thus, in order to determine the status of unemployment insurance legislation in the country the provisions of the different state laws must be studied.

The Old Age Insurance System

The system of old age insurance established under the Act is the only exclusively national plan in the program. The states have nothing to do with it. The plan provides that annuities financed by contributions be paid at the age of 65 as a matter of right rather than need. For this purpose the Act lays a tax on all employers of labor, regardless of the number of workers they employ, excepting largely those excluded under the unemployment insurance provisions. The tax became effective on January 1, 1937, and started at 1 per

cent of the payroll. The rate is to rise by one-half per cent every three years until it reaches 3 per cent in 1949. Wages or salaries over $3,000 a year are not considered in computing the payroll for tax purposes. In addition to the employer tax a similar tax is levied upon the incomes of the workers. The money is collected by the Federal Treasury. Annuity payments are to begin from 1942 on, to every qualified person who has reached age 65 and has received at least $2,000 in wages since January 1, 1937. The amount will vary with the total wages earned. The minimum is $10 and the maximum is $85 monthly. An annuitant may not continue to work for wages in regular employment. Unqualified individuals and the heirs of those who die before the retirement age will receive lump sum payments equal to 3½ per cent of their total earnings since January 1, 1937.

Major Problems Raised by the Act

THE outstanding and far-reaching old age and unemployment insurance features of the Act raise many serious problems because they do not follow the modern concepts of social insurance:

Unlike the successful British system which aims to guarantee a modest basic income for all workers in distress, the benefits in our Act depend entirely upon the wages previously earned by an insured person. They are largest for those who have been lucky enough to have the most steady employment and the highest wages, and lowest for those workers who have been most unfortunate. In its adherence to the actuarial principles of private insurance, our program gives no consideration whatsoever to the basic social standards of living. The fact that the benefits provided may not suffice for even mere subsistence is completely ignored.

As a result of the Act's limited method of distributing the costs of the insurance programs, the benefits it can provide must of necessity be limited. The inadequate revenues accruing from taxes on payrolls and workers' wages can at best provide the needy with only scant protection. The framers of the Act not only ignored the huge basin of existing unemployed, but offered little protection for the future unemployed as well as thoroughly inadequate provision for the aged for a generation to come.

Our insurance programs, moreover, do not augment the purchasing power of the masses. They make no effort to divert a part of the income in the higher brackets, which does not now go for consumption, into a channel for this purpose. They do not seek a balance in the national economy through the progressive underpinning of mass purchasing power by making every class of society share in the cost of the program. On the contrary, the Social Security Act places practically the entire burden upon the poorest sectors of the population. It not only relieves the wealthy from their share of the social burden which, through the poor laws, they have helped to carry for over 300 years, but in obliging the poor to share their poverty in order to sustain the most impoverished, the Act tends to aggravate the existing lack of security. For the heavy, direct withdrawals from workers' wages and the taxes on employers' payrolls, which will be passed on to the consumers in the form of increased prices, can only result in a further reduction of mass purchasing power. Such taxes will also intensify the displacement of men by machines through employers' attempts to reduce labor costs. That such a program is not conducive to and cannot bring about greater security is obvious.

The inadequate protection offered and the many other problems involved in the present insurance programs can best be seen by an analysis of each of these programs:

The Injustices of the Old Age Insurance System

(1) Since the average monthly annuity which most workers will receive under the present Act will be less than $30 a month during the next 20 or 25 years, and since there can be no security in old age on less than that amount, the present system of old age insurance fails to meet the needs of the aged for that period at least. An insured worker must average at least $100 per month uninterruptedly for 20 years to get a pension of $32.50 a month when he is 65 years old. With sickness, strikes and unemployment whittling down his work period, most workers would not get such annuities unless they worked 25 or 30 years. Few men or women working today will live to receive the maximum pension of $85 monthly since this amount can go only to those who earned at least $3,000 every single year for 43 years. Although a needy couple may today receive up to $60 monthly under

most of the state non-contributory pension systems, the insurance plan provides nothing for the insured man's wife unless she too had been a wage-earner.

The old age insurance system cannot, therefore, meet the problem of old age dependency for at least a generation even if the value of money should remain stable. During this period the needy insured will be obliged to seek additional help from the non-contributory systems. This not only necessitates two duplicating systems to cater to the same person but negates the aim of eliminating the test of need through old age insurance. It also renders meaningless the present requirement for retirement from work upon the receipt of an annuity as no one will surrender a job for such a pittance.

(2) Despite the fact that the Act does not provide security in old age for many years to come, it places an immediate back-breaking burden upon the workers, especially the younger and better paid ones. The latter not only have to provide fully for their own annuities but, in addition, must pay higher premiums in order that those now old and in middle age may receive their benefits. Higher-paid young workers entering the system when the 6 per cent rate goes into effect in 1949 will, with their employers, pay much higher premium rates than would be required by a private insurance company for similar annuities. Thus, a worker of 20 entering the system in 1949 and earning $250 monthly could, with his employer's contribution, purchase a private annuity of $147.35 monthly as against the $85 monthly maximum under the federal plan. It is this worker's money which makes possible the minimum pensions of $10 monthly beginning in 1942. The argument that the federal benefits are larger than private annuities bought by the workers' own contributions is meaningless, since workers eventually bear the employers' taxes in higher prices.

(3) Grave dangers also inhere in the huge reserves contemplated under the old age insurance plan, estimated to reach $47,000,000,000 by 1980. Of course, it is not unlikely that Congress may dissipate the reserves for other purposes. If accumulated, however, these huge funds may be invested only in government obligations paying interest at 3 per cent per annum. This sum, about $12,000,000,000 above our present outstanding indebtedness, will place a premium on increasing the governmental debt burden, not to speak of the effects on the national economy when all governmental bonds are withdrawn from banks, in-

surance companies, trust funds and private investors. There is, indeed, grave danger in concentrating all governmental debt and securities in one account controlled by the government itself.

The Corrections Necessary

THE corrective changes required in this part of the program become plain when it is remembered that the objectives of a social insurance plan for the aged is to provide security against want in old age. Our present scheme will fail to attain this goal for at least a generation because, contrary to all experience abroad, our government seeks to evade its responsibility for the accumulated problem of old age indigency. It is due to its desire to relieve itself of pension subsidies to the states as quickly as possible as well as to build reserves for the future that the contributions were set so high. And it is only because the taxes could not be set high enough to accomplish this double purpose adequately that the government preferred to sacrifice the older workers. Unable, however, to deny the older workers any pensions at all, the government will grant a minimum pension of $10 monthly to those who had earned $2,000 by 1942 even though none will have earned such an annuity. But since these unearned annuities must be drawn solely from the payroll and wage taxes, the government placed this extra load upon the shoulders of the younger workers, especially the better paid ones.

It is obvious, however, that no government can shift the cost of the accumulated burden of old age dependency to the younger workers without incalculable social harm. The tax is levied on earnings, not on incomes. Younger persons striving to raise families need every dollar they earn. The United States, like all other countries, must therefore realize that this burden can be carried only as a community responsibility, shared equitably by all classes of the population. Adequate provision for the older group can thus be made only through a liberal system of non-contributory pensions or by government supplements to the old age insurance system.

Fortunately, the necessary changes can be effected without completely scrapping the present plan by amending it in the following ways:

The financing base of the old age insurance system must be broad-

ened to include a governmental contribution derived from progressive taxation, such as income, inheritance taxation and their like. The present one per cent tax on workers and employers can be retained. However, instead of the scheduled one-half per cent tax increase every three years, the increment should occur every five or even ten years. The ultimate contribution from workers and employers, now set at 6 per cent within twelve years, should be reduced to a total of 4 per cent.

The needs of those soon to reach 65 years of age can be met by using either one of the two following methods:

(a) For a number of years the older group can be cared for through the existing non-contributory state pensions by increasing, if necessary, the present federal subsidy for this purpose and requiring more adequate state standards. The needy insured would be compensated for their thrift by not considering their accumulated annuities as assets under the non-contributory pensions, thus assuring them a larger income compared with those who have not been insured. Those not in need would receive only their annuities. Since, under the present plan, the state pension systems will have to supplement the needy insured for almost a generation to come, the suggested plan would at least eliminate the burden now placed upon the younger workers.

(b) Another way of accomplishing the same purpose would be to follow the British system. The government may guarantee an annuity of say $30 or $35 monthly to all insured persons as well as to their wives by 1940 or 1942, thus establishing a minimum standard of security in old age. The deficit incurred would be made up by the government from current progressive taxation or by borrowing if necessary. Much of this money would represent savings in lower subsidies to the state pension systems and in reduced administrative costs. The government burden, heaviest in the first years, would gradually taper off as the contributions of the workers and employers increased sufficiently to provide an adequate annuity.

These changes would not only introduce a system of genuine social insurance but would eliminate most of the social dangers contained in the present scheme. The governmental contribution from progressive taxation would have immediate salutary effects because: (a) by providing adequately for the aged it would make possible an increase in the purchasing power of the masses and tend to bring about a bet-

ter balance in the national economy; (b) the lowered contribution rates will not prove so burdensome upon industry and the workers; (c) they will not prove so serious a factor in increasing unemployment through technological developments; and (d) they will remove the dangers of large reserve accumulations and place the program on a more or less pay-as-you-go basis.

Unemployment Insurance Inequities

The provisions for unemployment insurance established by the Social Security Act are also extremely defective and fraught with grave social dangers:

(1) The Act takes no account whatsoever of the existing unemployed. Those now out of work cannot possibly benefit under any of the state systems set up in conformity with the Act until they are first reabsorbed by and then discharged from private industry.

(2) Insignificant protection is extended even for the unemployed in the future because the ultimate 3 per cent levy on payrolls, effective in 1938, will rarely permit benefits of more than $15 weekly for about ten weeks. The most that will have been collected under the New York unemployment insurance law by 1938, for example, is approximately $100,000,000. This sum may be exhausted in but a few months if the workers in the building and needle trades should draw benefits at the same time. The problems of workers with large families to support and of those who have exhausted their short benefit period are completely ignored, as are those of the large number of migratory workers.

(3) The underlying anti-social and uneconomic characteristics of the old age insurance plan are also found in the unemployment insurance provisions. Here, too, the government seeks to escape its responsibility for future unemployment despite the fact that for many years in the past it has been spending and will continue to spend billions of dollars for this purpose. As in the old age insurance plan, this system too does not harness the resources of the nation for those in need, as practically all progressive social insurance programs abroad have done. On the contrary, it merely hopes to bring security to the unemployed by a tax which ultimately will fall largely upon the workers themselves and may react adversely on employment.

(4) The Social Security Act also goes out of its way to complicate the administration of unemployment insurance. Every state is at present duplicating the federal tax and administration. Instead of promoting adequacy of standards and uniformity, the Act encourages a confusing variety of systems, regardless of their efficacy. A state may set up a single pooled fund or innumerable individual company reserve funds. It may or may not establish a merit-rating system. It may or may not provide for employment guarantee plans. Each state may include or exclude any group of employers it desires. It may require contributions from employees or not. It may make a governmental contribution or not. It may pay benefits as low and for as short a period as it desires. Indeed, the Act has already brought about a miscellany of forty-eight divergent state plans, causing endless confusion, inequality between states and disparity between workers and employers in the different states.

The Changes Necessary

While the national old age insurance plan can be changed into a socially constructive system without altering its basic present structure, the objectives of unemployment insurance can be attained only by a complete recasting of the present cumbersome tax-credit plan, which was opposed from the start by every student of the problem. The changes involved may be outlined as follows:

(1) Though it may be politically and administratively advisable to retain the federal-state cooperative arrangement in unemployment insurance, the cumbersome and superfluous duplication of taxes and bookkeeping must be discarded. Students of the subject are practically unanimous in the belief that the best means of providing unemployment insurance under a federal-state plan is through federal subvention of states which enact laws conforming to adequate federal standards. The subsidy for the regular state insurance benefits should be an amount needed by the state to pay insurance benefits during a specified period of, say, not less than twenty weeks. Thus, the states would not have to levy taxes of their own and only the single federal tax would be retained. This tax might even be augmented by a levy not to exceed one per cent on workers, which is justified for psycho-

logical reasons. The difference between the revenues and the amount needed for insurance benefits should be made up by the federal government. The advantages of this simple subsidy plan over the present cumbersome tax-offset system are obvious: (a) It would assure a uniform system of unemployment insurance throughout the country; (b) it would provide an effective method of meeting the needs of the unemployed during the insurance-benefit period; (c) it would eliminate the necessity of forty-nine separate tax systems.

(2) Adequate and comprehensive standards for the state administration of benefits must be prescribed by the Federal Act. These standards should specify a minimum duration of at least 20 weeks' benefits in a year, a fair minimum weekly benefit, proportionately higher allowances for workers with dependents, adequate Civil Service requirements for personnel and arrangements for the protection of migratory workers.

The need for minimum state standards is obvious. There is just as urgent need for grading benefits in accordance with family needs. The present unemployment insurance benefits, limited in practically all states to $15 a week, are obviously inadequate and unjust. While this sum may suffice for a single person it cannot meet the problem of a man with a large family. Even if the latter should be granted the maximum sum, he would still have to resort to public or private relief agencies for supplemental support. This not only necessitates duplicating agencies but nullifies the very aim of unemployment insurance as a self-respecting and dignified provision. Although at first Great Britain attempted to avoid the granting of unemployment benefits according to family needs, it was forced to institute such provisions in 1921. Since social insurance provisions are not dictated by the principles of private insurance, a governmental unemployment insurance scheme must proportion benefits in accordance with family needs regardless of the contributions paid.

(3) The present divided authority in federal administration must be done away with and the two national services of unemployment insurance and employment placement consolidated into one administration. Consolidation would eliminate the present difficulties of separate authority, separate personnel and separate budgets for services that are too closely intertwined to permit such division.

(4) While the suggested subsidy plan would obviate many of the difficulties of the present systems, it would still make no provision for the present unemployed and those suffering from prolonged unemployment in the future. To accomplish this purpose, the needy unemployed should be taken care of through the employment exchanges operating in conjunction with the unemployment insurance system. Those now on relief should register and report for work regularly at the public employment offices. Whenever a job at normal wages is available within his occupation, the unemployed would have to accept it or lose his benefits. It goes without saying that he would not be asked to act as strike breaker. As long as jobs are unavailable, the needy unemployed should be entitled to benefits financed out of federal monies derived largely from progressive taxation and paid on the same basis as the regular insurance benefits. This system would have many beneficial effects: (a) It would effectively discourage the slackers; (b) it would provide the best and cheapest method of qualifying the unemployed; (c) it would make possible the acceptance of temporary jobs by persons on relief, now shunned because of the difficulty of returning to the relief rolls; (d) it would provide for the unemployed on a dignified basis; (e) it would tend to increase mass purchasing power and produce a more balanced national economy; and (f) it would prove considerably cheaper than the present expenditures of the Works Progress Administration and local relief. If this program seems revolutionary, it should be remembered that England has practised it with the greatest success for many years.

The above program requires, of course, a complete revamping of our present unemployment relief provisions. But such a change can hardly be postponed. No longer an emergency problem, unemployment relief is a national question that cannot be relegated to the states. President Roosevelt did not repeat in his last campaign his assertion of a few years ago that "I stand or fall by my refusal to accept as a necessary condition of our future a permanent army of the unemployed." According to Mr. Harry Hopkins, even if 1929 conditions prevail again we shall probably continue to have from 6,500,000 to 7,500,000 unemployed. This huge problem cannot be met through WPA. Few persons believe that we can provide constructive work relief for millions of unemployed indefinitely, and already every effort is being made to reduce the WPA rolls. Aside from

the expense involved, it is dubious wisdom to perpetuate a work-relief system that helps to undermine wage scales and conceals governmental administrative costs. Worth-while governmental projects as can give work to the unemployed at normal wages should be used to the greatest possible extent.

The claims of the psychological superiority of work relief are greatly exaggerated. What embitters relief recipients today is not relief as such but its uncertainty and stigma. When granted on a dignified and assured basis through the employment offices, relief becomes as self-respecting as unemployment insurance benefits. The needy British worker who has been unemployed a long time receives his benefits on the same basis and in the same pay queue as his recently employed brother. Moreover, systematic relief cannot harm the short-time unemployed. A six months' or even a year's lay-off for a worker with assurance of a self-respecting income is not a social calamity *per se.* For the long-time unemployed, a more vitalizing program than "made work" is essential for morale. Handling a shovel or compiling meaningless and useless figures does not add to the dignity and morale of either the skilled worker or the technician. Supplementary measures for retraining and vocational guidance would have to be added for the long-time unemployed.

Other Imperative Changes

In addition to the amendments outlined above for the old age and unemployment insurance features, a number of other changes are necessary to make the two plans equitable to workers and administratively efficient. We can cite here only a few of the more important amendments:

The scope of both insurance plans should be widened to cover workers in non-profit-making organizations, who are as greatly in need of protection in old age and unemployment as other wage-earners. Casual laborers, now included in the unemployment insurance system, should also be afforded protection under the old age insurance plan. For the present I do not believe that administrative difficulties warrant the extension of the plans to domestic and farm workers. I feel that it is advisable to delay this extension until the insurance systems are made more equitable and are in operation for some time.

A serious handicap to both old age and unemployment insurance administration at present is the setting of contributions and benefit rates as a percentage of wages earned. Both our insurance systems go out of their way to set up the most complicated administration by a separate wage class of every wage-earner. The costs of this administration may, in many instances, prove excessive. Great Britain has always used flat rates for this purpose because by using the stamp system the difficulties and costs of administration are minimized. Other countries divide workers into wage classes and set a flat rate within each class. Our difficulties can be overcome only by the establishment of simple definite rates of contributions and benefits as in England.

Both the old age and the unemployment insurance systems now include the highly paid executives and presidents of corporations, although the old age insurance plan takes into consideration only the first $3,000 of yearly earnings. Since social insurance can aid only the workers, not the captains of industry, the inclusion of the latter group merely clutters up the systems with thousands of insured who neither need nor want the protection. The argument that these contributions augment the funds for the benefit of the lower paid workers holds no water since the taxes are levied on salaries, not on net incomes, and they are included in the costs of production and passed on to the consumer. For many years well-paid executives will be drawing a pension, a considerable share of which will come from the taxes paid by younger wage-earners. The share of the wealthier groups should be secured through net income and inheritance taxation and transferred to the insurance programs through the governmental contribution. Both the old age and unemployment insurance systems should therefore be amended to cover only workers who earn up to $3,000 a year. A voluntary old age insurance plan should be added to the compulsory scheme for those excluded workers who may wish to enter the system on their own account.

As contributions to social insurance are not ordinary revenue taxes, their collection should be transferred from the Treasury Department to the Social Security Board. Regulations for this purpose should be under the direction of officials who understand social insurance administration, not mere tax gatherers. This would not only make possible more harmonious relations between the administrators and the

employers but would stop the present bickering between the two departments.

Another administrative change is essential in the composition of the Social Security Board. Even in countries where the government is a direct contributor to the insurance funds, the workers and employers are given a voice in the central and local administrations. Although the federal government refuses to contribute a penny towards the insurance funds, the Social Security Act is administered by a politically-appointed body without even advisory assistance from the representatives of workers and employers who shoulder the entire cost of the program.

The Need for Health Insurance

ALTHOUGH one of the gravest problems confronting wage-earners at all times is illness, the Social Security Act entirely ignores and evades this most immediately pressing problem. Indeed, despite the fact that for centuries workers throughout the world sought protection against sickness and its concomitant wage losses through the medieval guilds, the trade unions and a variety of mutual aid societies, and the risk of illness was among the first to be met through social insurance, illness in the United States remains to this day the most neglected of all the major industrial risks.

Every passing year, however, makes the need for health insurance more urgent. Each new investigation reveals the crying need for immediate remedial social action. In normal times sickness constitutes the chief cause of dependency. From 2,500,000 to 3,000,000 persons are ill in the United States every day. Despite our highest proportion of doctors to population in the world, millions of Americans have to resort to public medical charity or go without care because they cannot meet the cost of illness. While some people escape being ill or suffer only a short time, others are sick for such long periods that serious individual as well as social burdens are created.

Illness bears down especially hard on the lowest income groups who are most subject to it and can least afford the expenses involved. The close relation between illness and poverty is revealed by all studies of the subject. The consensus of all investigations is that the incidence

and severity of illness are nearly twice as great among the lowest income receivers than among the better-paid groups. A recent study, for instance, showed that families with an annual income of less than $250 per capita suffered 35 per cent more disabling illnesses and 47 per cent more sicknesses necessitating confinement in bed than those having yearly resources of $425 and over per capita. Indeed, it has long been established that workers not only suffer higher morbidity but also pay with shorter lives. As stated by the late Dr. I. M. Rubinow, there are few generalizations as scientifically accurate as the proposition: "Poverty causes ill health; ill health causes poverty."

Caught between the millstones of loss of wages and unbearably heavy sickness costs, the sick American wage-earner first tries to get along with as little medical care as possible. Recent sickness surveys in twelve communities in the United States disclosed that from 25 to 30 per cent of the relatively serious cases of sickness had no physician's care. In the rich city of Rochester, N. Y., it was found that 39 per cent of the persons suffering from disabling illness had no doctor in attendance. The authoritative Committee on the Costs of Medical Care concluded that: "It appears that each year nearly one-half of the individuals in the lowest income group receive no professional medical care or dental attention of any kind, curative or preventive."

When medical care can no longer be postponed, self-respecting wage-earners are forced to resort to charity. The large numbers in the poorer classes receiving free medical care is only too well known. What is most significant, however, is the fact that despite the inadequate care they receive and the enormous medical charity, workers still pay a larger proportion of their wages for medical services than persons in the upper income levels: The Committee on the Costs of Medical Care showed that while the group with the highest income pays only 3.7 per cent of its income for medical care, the $1,200-$2,000 income group pays 4.3 per cent, and the lowest income group 5.9 per cent of its earnings for the same purpose. In other words, the very poor, presumably beneficiaries of unlimited free medical service, actually pay nearly 60 per cent more for medical service in proportion to their incomes than the few who have the costliest specialists at their beck and call.

Present Conditions Vicious

This situation is socially disastrous to all concerned. It is as deleterious to the public health as to the doctors, dentists, hospitals, druggists and nurses. Medical practice today permits the existence of millions of remedial physical and mental defects and the occurrence of millions of cases of preventable diseases. The death rate among adults of middle and old age has not appreciably diminished in the past fifty years. Mortality among working-class mothers and infants in the United States is still far above that in some other countries. Less than 7 per cent of the population has even a partial physical examination, and less than 5 per cent is immunized against some diseases. Recently the Surgeon General of the United States shocked the nation by his revelation as to the extent and the devastating effects of venereal diseases in the United States, placing us among the worst countries in the world.

The present chaotic conditions affect the medical practitioners as well as their patients. The physicians' medical charity is not only disproportionate to their income, especially among those catering to the poorer sections of our cities, but is reflected in their low incomes. Even in prosperous 1929 one-third of all private practitioners had net incomes below $2,500. In 1933 a study of some 2,000 California physicians revealed that one-third earned less than $2,000 net that year. One-half had net incomes below $3,000 and three-fourths under $5,000 net. One-third of the California dentists earned less than $2,000 net, two-thirds less than $3,000 and three-fourths under $4,000.

The doctor's dilemma today is, indeed, perplexing. In order to increase his income he strives to become a specialist. He must maintain an office full of impressive and expensive apparatus which he may use only on the rarest of occasions. Studies of physicians' overhead expenses place these costs at nearly 50 per cent of gross earnings. The high overhead transferred to patients' fees means that more people go without adquate care while thousands of practitioners sit idly waiting for patients. It has been estimated that physicians are idle between one-third and one-half of their working time. The doctor's inability to earn a decent living has brought about the widespread evil of "fee-splitting" and the frequently unnecessary operations and extended treatment.

Indeed, no group rendering medical services is immune from insecurity. The difficulties of private hospitals are well known. With one-third of their beds empty, they must constantly appeal to charity. The apothecary's art has disappeared. Fortunately for him, he has been saved by the soda fountain and the lunch counter. Nurses face even greater difficulties. They have been particularly hard hit during the depression because, though the demand declined, their numbers, on account of the hospitals' need for cheap labor, increased. Thousands of nurses during the depression had to go on the relief rolls.

The modern medical paradox of illness unattended amidst thousands of idle doctors, empty hospital beds and idle nurses parallels our industrial paradox—starvation midst plenty. For the American people actually spend every year close to $4,000,000,000 for all medical services, a sum sufficient to purchase reasonably adequate and proper care for all who need it. The problem arises from the fact that despite great medical discoveries and new techniques which require great expenditures, and the fact that the bulk of our population are unable to save from their meager earnings for the many costly emergencies, the practice of medical care in the United States remains as individualistic as centuries ago. When illness strikes a wage-earner, his wages—the very means of his livelihood—are cut off. Under these conditions it is not possible for him individually to provide for his family and also pay expensive medical bills. All authorities agree that, by proper budgeting and distribution, the present total expenditure on medical service suffices to provide ample care for all. An immediate practicable method of providing such care for the wage-earning population without undue interference with present day medical practices, is that of health insurance, a system in operation for many decades in over a score of nations abroad.

An American Health Insurance Program

SINCE our problem is chiefly that of the illness of the wage-earner, health insurance program must concern itself largely with the workers. The wage-earner must be insured not only against the costs of medical care but, of even greater importance to him, against the discontinuance of his wages when ill. Cash benefits during illness

mean even more to him than benefits during unemployment. The many years of experience abroad enable America today to work out the best and most practicable system of health insurance. The main principles of such a program are as follows:

(1) Like all other social insurance programs, health insurance must be on a compulsory basis. Voluntary insurance has never involved any but an exceedingly small section of the population within its provisions. The recently growing voluntary insurance schemes in the United States will not meet the problem. Experience in Europe as well as in America shows that those most in need of this protection either cannot or will not insure. European countries were forced to replace their voluntary schemes with obligatory systems.

(2) Since all studies indicate that persons earning less than $3,000 per year cannot budget for illness, the system should be built around these workers. Protection should also be extended to the existing unemployed through special arrangements between the relief and insurance authorities. Those earning between $3,000 and $6,000 annually should be permitted to enter the system voluntarily.

(3) The plan must provide for cash benefits as well as for medical care. To confine the system to medical benefits is to ignore the major economic problem and to hamper recovery from illness. Cash benefits should be paid the insured for about 26 weeks. In the beginning the benefits may be limited to $15 a week with additional allowances for dependents. The medical benefits should be extended not only to the insured but to his dependents. Without such provision, the worker's protection would not be complete since the cost of health services for his family is almost as crushing. The medical benefits must begin immediately upon entrance into the insurance system and continue as long as necessary. They must include in addition to physician's care, indispensable surgical and hospital services as well as essential dental care. When inability to work results, invalidity benefits should be provided either through the health or old age insurance systems. The law should also provide for maternity benefits including cash benefits for a short period before and after child birth, all necessary medical care and a small cash bonus to help defray the costs of child birth.

(4) While both medical and cash benefits must be linked in the same system, the determination of the right to cash benefits may be placed with full-time public officials rather than with the doctor who

treats the insured person. The cooperation of the state, employers, insured and health professions may be secured by giving them effective representation in the administration. Representative councils may be set up in each locality with power to make agreements for the remuneration of the health professions, according to the method preferred by the physicians themselves, which need not be the same everywhere.

(5) Present estimates indicate that a fairly adequate system of health insurance would require about 6 per cent of wages which, on average weekly wages of $25, would be $1.50 per worker. Of this sum three-fourths is necessary for the medical care and the remainder for the cash benefits. The $1.50 contribution may be divided as follows: Employers would pay 88 cents weekly for their employees receiving wages under $20 a week, 63 cents weekly for those earning between $20 and $40 a week, and 38 cents weekly for those whose wages exceed $40. Since a social measure should encourage the payment of higher wages, it is socially sound to arrange the employer's contribution in inverse ratio to the wages of the worker. The employee rates would be as follows: Those earning under $20 weekly would pay only 25 cents a week; those receiving between $20 and $40 a week would pay 50 cents weekly; while those with incomes above $40 a week would pay 75 cents weekly. The federal government would contribute 38 cents for each insured worker.

The employers' contributions are not only just but will benefit them greatly. Excessive illness of lower paid workers is due largely to insufficient wages. Industry, responsible for the maintenance of plant and machinery, must also be accountable for the worker's welfare, which is most vital to efficient production. Moreover, improvement in the worker's health means reduced labor turnover and greater efficiency. The employees' contributions are justified because they and their families are the chief beneficiaries of this insurance. They are now paying considerably more without receiving corresponding benefits. With the state already defraying much of the cost of sickness, government contributions to health insurance are not only justifiable but may represent a saving on present outlays for crime and indigency, and make for a more equitable distribution of costs.

The perennial objections of the American Medical Association to health insurance have always been at variance with the facts. Under

compulsory insurance, they contend, free choice is denied to both patient and doctor, personal relationship is destroyed, and the initiative of medical practitioners is endangered. These objections are silly and unfounded. Compulsory insurance everywhere permits the free choice of doctors by the patients and *vice versa.* In fact, it allows a wider choice since all qualified doctors are permitted to join the insurance system. The personal relationship factor is exaggerated. No system of medical care could be more impersonal than the clinics and charity wards to which the poor are now driven. The fear that medical practitioners may lose their initiative under an adequate system of compensation is similarly absurd. Assurance of income, regular hours and better opportunity for post-graduate research will stimulate rather than weaken present initiative. Group practice and close association with colleagues is bound to foster the development of medical science.

Health insurance in the United States, as in all other countries, would thus not only provide protection against the hazards of illness for the mass of wage and salary earning population but would, at the same time, immeasurably benefit the medical profession by bringing to them a new class of paying patients not in existence today.

Conclusion.

SINCE the success of social insurance depends entirely on the sound principles embodied in the laws and on careful and intelligent administration, it is imperative that Congress alter the basic structure of the Social Security Act at once. The basis of the Act must be changed from a private insurance scheme to a socially and economically constructive social insurance program. The Social Security Act must be so amended that it will enhance national security through a better balance in the national economy achieved by increasing mass purchasing power through progressive taxation. Benefits must be based on the needs of the workers, not on strict insurance principles. The plan must provide adequately for the aged as well as for the present and future unemployed. Its administration must be of the simplest character. Its provisions must not only be widened to cover those classes now excluded, but they must be extended to include security against illness and invalidity. Indeed, unless these changes

are effected without delay the present program, by shattering the hopes of a distressed people, may help to lead us away from the peaceful road of social legislation in coping with the Gargantuan problems of present day insecurity.

MOST SIGNIFICANT BIBLIOGRAPHY

Annual Proceedings of the National Conferences on Social Security, American Association for Social Security, 1927-1937.

Armstrong, Barbara N., *Insuring the Essentials,* Macmillan Company, 1932.

Burns, Eveline M., *Towards Social Security,* Whittlesey House, 1936.

Douglas, Paul H., *Social Security in the United States,* Whittlesey House, 1936.

Epstein, Abraham, *Insecurity—A Challenge to America,* Third Revised Edition, Random House, 1936.

Epstein, Abraham, *The Challenge of the Aged,* Vanguard Press, 1928.

Falk, I. S., *Security Against Sickness,* Doubleday, Doran & Company, 1936.

Falk, Rorem, Ring, *The Costs of Medical Care,* University of Chicago Press, 1933.

Hearings before the Committee on Finance, U. S. Senate, on Senate Bill No. 1130, January 22 to February 20, 1935.

Hearings before the Commitee on Ways and Means, U. S. House of Representatives, on H. R. No. 4120, January 21 to February 12, 1935.

International Survey of Social Services, International Labour Office, Geneva, Switzerland, 1933.

Laidler, Harry A., *A Program for Modern America,* Chap. II.—IV., Crowell, 1936.

Millis, H. A., *Sickness and Insurance,* University of Chicago Press, 1937.

Report to the President of the Committee on Economic Security, United States Government Printing Office, Washington, 1935.

Rubinow, I. M., *The Quest for Security,* Henry Holt & Company, 1934.

Social Security (monthly periodical) American Association for Social Security.

BOOK REVIEW

AMERICAN POLITICAL AND SOCIAL HISTORY. By *Harold U. Faulkner. New York. F. S. Crofts*, 1937. 772 pp. $5.00.

IN PAST YEARS most college text books on American history have devoted their primary attention to the purely political phases of our development, ignoring the interaction between economic and political controls. Occasionally there has issued from the press a text book describing the purely economic history of the country. Little attempt in text books, as compared with such general treatises as the Beards' monumental volume on "The Rise of American Civilization," has been made, however, to integrate the political, social and economic phases of our national life.

This, Dr. Faulkner, Professor of History of Smith College, has sought to do and in his attempt has succeeded admirably. In less than 800 pages, he has presented to the student of America a clear, concise, well-balanced interpretation of the forces operating in America, from the settlement of this country to the conclusion of the first term of Franklin Delano Roosevelt.

While Professor Faulkner has approached his task with the discerning eye of the scholar, neither he nor the editor of the series, President Dixon Ryan Fox, make any claim to the author's neutrality on social issues. On this point, President Fox in his Foreword declares that Professor Faulkner "writes from what may be called a liberal point of view. It is soon apparent that he is somewhat more on Jefferson's side of thought than on Hamilton's side" And if President Fox had come down to the present century, he could have declared that, to the discerning reader, the author was somewhat more on the side of the heretics of today than of those who were defending monopoly-capitalism against all comers.

President Fox not only acknowledges Professor Faulkner's definite viewpoint on the important events in American history, but points to the existence of this viewpoint as constituting one of the distinct advantages of the book. The progressive tendency in the volume, he declares, "should awaken and sustain an interesting discussion in the classroom. Ours would be a dull world; certainly ours would be a dull classroom, if we all had to agree; there are such worlds

and classrooms. It is a merit of this book, as a college text, that it contains some discussable propositions. . . . The value of disagreement is to stimulate inquiry." It is a good omen that this truth of President Fox's statement is being increasingly recognized. It may mean fewer dull and socially worthless texts in the future than in the past.

Throughout, the book is a realistic rather than a romantic history of historical developments. In his final chapter on the New Deal, Professor Faulkner maintains that the New Deal presents nothing essentially new. The extension of federal supervision over the nation's economic life under the New Deal "had started quite definitely with the Interstate Commerce Act of 1887" and "indeed it had been given considerable impetus in the Hoover Administration by the Cooperative Marketing Act, by the establishment of the Reconstruction Finance Corporation and in various other ways. . . . The fundamentals of capitalist economy—private ownership of the means of production and distribution and the profit system—were maintained. In the case of agriculture this was carried to the extent of promoting scarcity rather than plenty in order to increase prices and profits."

While the book was written primarily as a college text book, it should be in the possession of every student of American history who desires a convenient handbook of American developments written by a ripe scholar constantly seeking to discover the root causes of our national development. The book contains an excellent bibliography and a rich mine of historical references.

HARRY W. LAIDLER